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IN THE

Supreme Court of the United States

OCTOBER TERM, 1950.

No. 561

C. F. WILLIAMS, JR., *Petitioner,*

vs.

HUGHES TOOL COMPANY, *Respondent.*

BRIEF OF RESPONDENT IN OPPOSITION TO PETITIONER'S APPLICATION FOR WRIT OF CERTIORARI.

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BRIEF OF RESPONDENT IN OPPOSITION TO PETITIONER'S APPLICATION FOR WRIT OF CERTIORARI.

Opinions Below.

The opinion of the District Court (R. 15) is reported at 82 F. Supp. 408. The opinion of the Court of Appeals (R. 234) is reported at 186 F. (2d) 278.

Jurisdiction.

The judgment of the Court of Appeals was entered December 2, 1950 (R. 258). The petition for a writ of certiorari was filed on or about February 19, 1951. The jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1254 (1).

Questions Presented.

1. Whether the concurrent findings of the District Court, affirmed by the Court of Appeals, that the defendant rebuilt patented structures is "clearly erroneous".

2. Whether the leasing of an article, whether patented or unpatented, on condition that it be returned at the end of the term of the lease is an illegal "restraint".

Statutes Involved.

Sec. 3 of Clayton Act (15 U.S.C. Sec. 14)

"Sec. 14—Sale, etc. on agreement not to use goods of competitor.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

Oklahoma Stats. Ann. Title 15 Ch. 12—Hiring of Personal Property

"Sec. 531. Hiring defined.

Hiring is a contract of bailment by which the bailor, or letter, gives to the bailee, or hirer, the temporary possession and use of property for reward, the hirer agreeing to return the said property to the letter at a future time (R. L. 1910, Sec. 1125).

"Sec. 536. Use for purpose for which thing was let.

When a thing is let for a particular purpose, the hirer must not use it for any other purpose; and if he does, the latter may hold him responsible for its safety during such use, in all events, or may treat the contract as thereby rescinded (R. L. 1910, Sec. 1130).

"Sec. 545. Return of thing hired.

At the expiration of the term for which personal property is hired, the hirer must return it to the letter at the place contemplated by the parties at the time of hiring, or if no particular place was so contemplated by them, at the place which it was at that time. (R. L. 1910, Sec. 1139).

STATEMENT OF THE CASE.

Petitioner was found by the District Court to have infringed two of Respondent's patents and to have interfered with Respondent's contract rights respecting its own property. (R. 26) The Court of Appeals affirmed, except that the cause was remanded with instructions to terminate the injunction against infringement of one of the patents which had expired, pending appeal. (R. 258)

The articles involved are rock bits for use in rotary drilling for oil and gas. Respondent manufactures such articles which it distributes under a lease agreement throughout the oil fields of the United States. Petitioner does not manufacture such articles or sell or lease them. Petitioner operates a welding shop in Tonkawa, Oklahoma where, among other activities, he performs labor for about six of his customers in picking up and in rebuilding the worn teeth of Respondent's used rock bits and the worn teeth of used rock bits manufactured by Reed Roller Bit, Chicago Pneumatic Tool Company, Security Bit Company, H. C. Smith and others. (R. 105, 106) Only the rock bits

owned by Respondent and manufactured by it in accordance with its own patents are here involved, and no contention has been made in this case and no holding has been made by the Trial Court or by the Court of Appeals that Respondent's property rights and its patent rights extend to the rock bits of anyone else.

Petitioner recognized at all times that the used rock bits of Respondent retipped by him were not his property but were the property of Respondent, and were marked "property of Hughes Tool Company" (R. 106), but despite such knowledge and without Respondent's consent Petitioner rebuilt the worn teeth of such rock bits by welding new metal on to the stubs of the worn teeth in the attempt to construct or rebuild such teeth as near as possible to the shape, size, arrangement and interfitting, of the original teeth. (R. 107).

Each of Respondent's bits is marked as the property of Respondent and each bears a serial number by which it can at all times be identified. (R. 73, 105). Respondent has a field organization which delivers its bits directly to the drilling rig, and on delivery obtains from the driller or his representative a signed delivery ticket bearing a lease agreement as follows (R. 70, 134, 149):

> "Hughes Roller Rock Bits and all Core Bit Heads are never sold but are leased. When the original cutter teeth and/or bearing have served their useful life, the user will surrender the bits to Hughes Tool Company upon request. In accepting delivery, the user agrees not to surrender any of the tools as mentioned above to other than a duly authorized representative of the Hughes Tool Company."

Such field organization makes certain that the right type of bit is delivered for the particular drilling conditions existing at each rig, observes performance of all

bits, keeps records of formations drilled, hours on bottom, depth drilled, etc., which information is made available to the industry. (R. 70-73). These field men also pick up the worn bits of Respondent, examine them and in instances of abnormal performance refer the bit so identified to a district or division manager or a division engineer. (R. 71) When a more thorough examination is believed desirable, the bit with full information as to its performance and use is sent to Respondent's Research Department at Houston, where there is maintained a large laboratory with equipment for testing of bits, metallurgical investigation, chemical analyses, etc. (R. 69-73, 133, 134) The right to make examinations of such used bits and the right of forwarding such bit to the Research Department for extensive tests and studies results from Respondent's policy of reserving the right to repossess its bits after use by virtue of its lease agreement. By reason of such policy valuable information is obtained which affords a basis for evaluating performance as well as for maintaining and improving the quality of Respondent's product. The value to Respondent and to the industry of such policy is not challenged. Petitioner's witness Stevens corroborates Respondent's witnesses as to this. (R. 116)

The practice of leasing rock bits rather than selling them has not only been followed by Respondent for many years but also is widely used in the industry. (R. 107, 125, 215) The Petitioner, when he was president of Williams Iron Works Company, a former infringing manufacturer of rock bits, also marked his bits as property of such company and testified that in his opinion such bits were at all times the property of Williams Iron Works. (R. 106)

Witnesses for the Petitioner and for the Respondent agree that in most instances the life of a rock bit is gone

when it is once put into a hole and withdrawn. (R. 117, 125) In some instances, however, if the wear of the cutter surface has been much more rapid than the wear of the bearings because of some particular factor encountered, it is possible to build up new teeth and then rerun the rebuilt bits in soft formations near the surface of the ground. (R. 116) One of Petitioner's witnesses indicated that he found this to occur with one bit per month for each rig, which was about one bit in fifty. (R. 115) Another of Petitioner's witnesses testified that *in a particular area* he had used from 8 to 15 rebuilt bits for each 60 to 100 new bits (R. 122) which would be approximately one bit in 7 or 8 which could be so rebuilt and used. Such evidence refutes the contention of "an enormous amount of economic waste."

The patent in suit as to which Petitioner is enjoined has been characterized as a three cone interfitting bit and one of its characteristics is that the teeth on one cutter extend into grooves between the rows of teeth of the adjacent cutters, and in that manner interfit with the teeth of the adjacent cutters. The actions of the Petitioner of which the Respondent complains were picking up used bits of Respondent's manufacture and which remained its property, and adding metal to the stubs of the worn teeth and building up new teeth on the stubs of the old teeth in the form and arrangement of the original teeth and thereby restoring the interfitting characteristic of such patent. In such retipping or rebuilding of the worn teeth, the bearings of the bit are first washed, and then the attempt is made to determine the condition of the bearings by hand test of the looseness of the cones (R. 106). A torch is applied to the stub of a worn tooth to melt it, and then tungsten carbide tube metal is added so as to build up and restore the worn down teeth one at a time to their

original form and arrangement with resulting interfitting. (R. 107). The Petitioner testified that the only way of determining whether the bearings are in good condition is to see whether the cone is loose, that the bits are used in various drillings, sometimes very heavy drilling, and in some instances great weight is placed upon them, which was a severe service upon the bearings when used in deep formations, and that when so used, there may be little cracks and wear in the bearings and still the cones may not rattle. (R. 106). Petitioner further testified that a person can build up a tooth when it is quite worn, and that if one can see indications where the tooth has been, he can build it up and all he would need to know would be the location of the old tooth. (R. 107). Retipped or rebuilt bits lack uniformity in hardness; the bearings may not be good, and the driller can not be sure of them. (R. 125). The Respondent properly objects to risking its reputation on such retipped bits marked and identified as of its manufacture. (R. 88, 136).

ARGUMENT.

THE EVIDENCE ABUNDANTLY SUPPORTS THE CONCURRENT FINDINGS OF THE DISTRICT COURT AND THE COURT OF APPEALS THAT PETITIONER REBUILT THE PATENTED STRUCTURES.

The dispute between the parties as to whether the petitioner has "reconstructed" the patented structures or has merely "repaired" them is solely a factual dispute. As the Petition (p. 11) points out, decisions of this Court have established that "replacing of obviously temporary part that was clearly intended to be replaced" is "repair". On the other hand if the invention originally incorporated in a device is destroyed and then re-created, there has been "reconstruction".

The Petition suggests (pp. 11-12) that in the instant case the Court of Appeals applied some different test. In this the petitioner errs. The Court of Appeals discussed and applied the rules established by this Court. (See particularly the opinion of the Court, R. 240-242).

The Petition states that the fact that there were dissenting opinions "is eloquent testimony that uncertainty exists as to the law involved" (Petition, p. 11). This is in error. Judges Huxman and Murrah did not disagree with the District Court and the majority of the Court of Appeals as to the law. Judge Murrah stated (R. 253):

> "The majority treats the retipping operation as if it were performed on teeth which no longer perform their interfitting function. If I could agree to this premise, I should have no difficulty agreeing that the restoration of the teeth by retipping constitutes an infringing reconstruction".

Judge Huxman expressed the same thought (R. 249):

> "It is clear from the record that appellant's retipping operations are performed on bits whose teeth still intermesh * * *".

By "intermesh" and "interfit", reference was had to the characteristic of structures made under the Scott, et al, patent No. 1,983,316 (R. 141) that the rows of teeth on one conical cutter lie within grooves between rows of teeth on the adjacent cutters and in this sense "interfit" with those teeth. The cutters are not geared to each other but each rotates freely. The petitioner testified that in an average bit upon which he worked, the teeth were about half worn off (R. 105). It is immediately apparent from the photographs in the Appendix to the Petition that the teeth on one cutter cannot and do not extend completely to the bottom of the grooves of the adjacent cutters, and that on a new bit, the teeth on adjacent cutters overlap for less than their full height. Thus, with simultaneous wear on the teeth of all cutters, before the teeth are worn down for half of their height, they fail to overlap and fail to "interfit". It was the failure of Judges Huxman and Murrah to appreciate these facts which led to their dissents on this issue. The District Judge and the majority of the Court of Appeals were clearly correct in their understanding of the facts.

It is believed unnecessary to refer to the evidence establishing the outstanding contribution made to the art by the Scott and Garfield invention, or to refer to the abundant evidence supporting the decision of the Courts below. It is clear that the petitioner took structures in which the invention of Garfield and Scott had been destroyed and reincorporated that invention in them. The decision of the trial court, who saw and heard the witnesses, is in no sense "clearly erroneous" (Rule 52(a) Rules of Civil Procedure).

THE LEASING OF AN ARTICLE, WHETHER PATENTED OR UNPATENTED, ON CONDITION THAT IT BE RETURNED AT THE END OF THE TERM OF THE LEASE IS NOT AN ILLEGAL "RESTRAINT".

Respondent's lease contains only the restriction that when the lease terminates, the lessee shall return respondent's property to it. The lessee is left free to buy or lease bits and other equipment used in drilling where it wills. The record shows that lessees of respondent's bits do use bits of other manufacturers (R. 116, 120).

The only "restraint" in respondent's lease is the "restraint" which is inherent in any lease, or, indeed, any ownership of property. Leasing or hiring of personal property is a recognized legal transaction. It is widely used with respect to automobiles and machinery of all kinds, both by private parties[1] and by the Government.[2] It is widely used in the drilling industry and specifically in the distribution of bits (R. 106, 125, 215). Leases, *per se,* are not condemned by the anti-trust laws but are established, proper commercial transactions.

In *United States* v. *Bausch & Lomb Optical Co.,* 321 U. S. 707, 728 (1944), this Court in its opinion by Mr. Justice Reed said:

> "Congress has been liberal in enacting remedies to enforce the anti-monopoly statutes. But in no instance has it indicated an intention to interfere with ordinary commercial practice."

Section 3 of the Clayton Act (15 U.S.C. Sec. 14) specifically refers to the "lease * * * of goods, wares, merchandise, machinery, supplies, or other commodities" as a

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[1] See for example, **General American Tank Car Corporation v. Eldorado Terminal Company,** 308 U. S. 422 (1940).

[2] See for example, **United States v. County of Allegheny,** 322 U. S. 174 (1944).

saction prohibited *only* when on a condition that the ee shall not use or deal in the goods of a competitor. erent in this is not merely Congressional inaction, but roval of leases as legal, usual business transactions. ewise the legislature of Oklahoma has given statutory gnition to the validity of "hiring of personal property" lahoma Statutes Annotated, Title 15, Chapter 12, Secs. 536, 545). Specifically the legislature of Oklahoma has gnized that a thing may be let for a particular pur- (Sec. 536) and that at the expiration of the term it t be returned to the owner (Sec. 545).

he right of one owning property, whether patented or atented, to lease or sell at his own option, recognized Congress and the Oklahoma legislature, recognized and loyed by private individuals and the administrative ch of the United States Government, has been recog- d by this Court and was strongly affirmed in *Hartford-pire Co.* v. *United States,* 323 U. S. 386 (1945). That involved an appeal from the injunction against gross deliberate violations of both the Sherman Act and Clayton Act. The many and repeated deliberate vio- ns are set forth in the opinion of the District Court F. Supp. 541-622). Because of the vast extent of illegal activities of the defendants, the District Court eved that the right to lease patented articles should denied, since the Court feared that by the use of es rather than outright sale Hartford-Empire might e the means of enforcing unwritten, but illegal, condi- s upon the industry. The decree forbade any disposi- , or transfer of possession of machinery, by any means r than an outright sale. This Court affirmed the deci- of the District Court enjoining future violations of anti-trust laws but vacated the decree and remanded case because of the extent of relief granted. One of the

provisions which this Court struck from the decree was the requirement that Hartford-Empire should sell rather than lease its equipment.

This Court, in its opinion by Mr. Justice Roberts, said at page 412:

> "Paragraphs 21, 22, and 23 apply to the corporate defendants and to any of the individual defendants who shall hereafter engage in the business of distributing glassware machinery. They forbid any disposition or transfer of possession of such machinery by any means other than an outright sale. * * *
>
> "All of the appellants attack these provisions. A common ground is that this Court has held that the lease of a patented machine is a lawful method of exercising the exclusive patent right of practicing or using the invention,[10] and that effective relief may be afforded without destroying the appellants' property rights in the patents they own."

This Court further said at page 414:

> "Since the provisions of paragraphs 21 to 24 inclusive, in effect confiscate considerable portions of the appellants' property, we think they go beyond what is required to dissolve the combination and prevent future combinations of like character."

The dissent of Mr. Justice Rutledge expressly recognized the legality of the lease of patented articles, 323 U. S. 449:

> "The holder of a patent who observes the law is entitled to exercise his rights of ownership through lease as well as sale."

"[10]. **United States v. United Shoe Machinery Co.** 247 U. S. 32; **United Shoe Machinery Corp. v. United States,** 258 U. S. 451, 462. In this case, the court divided on the question of the legality of certain terms of the leases in question, but the dissentings justices did not suggest that a lease was not an appropriate method of exercising rights under the patent. Cf. **International Business Machines Corp. v. United States,** 298 U. S. 131."

e Petition (pp. 18-23) urges that the decision of the t of Appeals for the Tenth Circuit is in conflict with lecisions of this Court and other courts. Portions of pinion of this Court in *United Shoe Machinery Corp. nited States,* 258 U. S. 451 (1922) are quoted in the ion (pp. 18-19), and upon the basis of the quotations urged that the Court of Appeals held that the monop- f respondent's patents could be broadened by a lease eclude what is not covered by the patent. In quoting this Court's opinion, the Petition quotes what pre- and what follows this significant sentence (258 U. S. 58):

"When it is considered that the United Company occupies a dominating position in supplying shoe ma- hinery of the classes involved, these covenants signed by the lessee and binding upon him effectually prevent him from acquiring the machinery of a competitor of he lessor except at the risk of forfeiting the right to use the machines furnished by the United Company which may be absolutely essential to the prosecution and success of his business."

e vice which controlled the decision and about which Court was speaking in the portions of the opinion ed in the Petition was the preventing of the lessee acquiring machinery of a competitor of the lessor ex- at the risk of forfeiting the right to use machines of essor which might be "absolutely essential to the e". This does not exist in the present case. Lessees e respondent are free to use and do use machinery its of others (R. 116, 120). The lease does not prevent essee from acquiring what he will, and it does not re him to forfeit anything. The lease merely requires, l leases do, that when the lease is terminated the prop- shall be returned. Nor does the lease "broaden" a t monopoly. The rights asserted under the lease are rietary rights in the respondent's own property. They

are independent of whether that property be patented o unpatented, and independent of whether, if patented, th patents are owned by respondent or someone else.

Only three of the cases with which the Petition purport to find the decision herein in conflict involved leasin (*United Shoe Machinery Corp.* v. *United States,* 258 U. S 451 (1922); *International Business Machine Corporation* v *United States,* 298 U. S. 131 (1936); and *International Sal Co.* v. *United States,* 332 U. S. 392 (1947)). In none of thes cases was it held or even suggested that a lease was not a appropriate method of distributing an article whether pat ented or unpatented. The petition (page 24) quotes fro the opinion of the Court in the *International Salt* cas merely the first half of a single sentence. That sentenc concluded by pointing out that rules for use of leased ma chinery "may set reasonable standards which all supplier must meet." (332 U. S. 392 at p. 398). Further, in th *International Salt Company* case, 332 U. S. 392, this Cour not only recognized that a lease was a proper and lega method of distribution but further pointed out that reason able restrictions might be incorporated in leases. Thi Court, in its opinion by Mr. Justice Jackson, said at pag 397:

> "Of course, a lessor may impose on a lessee rea sonable restrictions designed in good faith to minimiz maintenance burdens and to assure satisfactory opera tion."

The decision of the Court of Appeals that a provision i a lease that the leased property must be returned when th lease terminates is a reasonable restriction and is supporte by the decisions of this Court, by legislative recognitio given to leases, and by the widespread use of them not onl by private industry but by the Government itself. Tha decision is not in conflict with any decision of this Cour or any decision of any Court of Appeals.

CONCLUSION.

For the foregoing reasons, it is submitted that the Petition for a Writ of Certiorari be denied.

Respectfully submitted,

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In the Supreme Court of the United States

OCTOBER TERM, 1950

No. 561

C. F. WILLIAMS, JR., PETITIONER

v.

HUGHES TOOL COMPANY

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

MEMORANDUM FOR THE UNITED STATES AS AMICUS CURIAE IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

INTEREST OF THE UNITED STATES

The court below, sitting *en banc*, has sharply divided on several questions of considerable public importance relating to the rights of a patentee holding a combination patent to prevent repair or reconstruction of an unpatented part of a patented combination in the hands of a licensee. The Government believes that the decision conflicts both with decisions of this Court, particularly *Mercoid Corp.* v. *Mid-Continent Investment Com-*